



**Gardner | Provenzano  
Schauman & Thomas**

**CERTIFIED PUBLIC ACCOUNTANTS**

# **SAGINAW PREPARATORY ACADEMY**

**Saginaw, Michigan**

**Financial Statements**

**June 30, 2007**

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# Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner  
Giacamo Provenzano  
James R. Schauman  
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## INDEPENDENT AUDITOR'S REPORT

August 24, 2007

To the Board of Directors  
Saginaw Preparatory Academy  
Saginaw, Michigan

We have audited the accompanying financial statements of the governmental activities of Saginaw Preparatory Academy, as of and for the year ended June 30, 2007, which comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Saginaw Preparatory Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Saginaw Preparatory Academy as of June 30, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors  
Saginaw Preparatory Academy  
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In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2007, on our consideration of Saginaw Preparatory Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Gardner, Provenzano, Schauman & Thomas, P.C.*

Certified Public Accountants

SAGINAW PREPARATORY ACADEMY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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This section of the Saginaw Preparatory Academy annual financial report presents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2007. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

**Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Saginaw Preparatory Academy financially as a whole. The Academy-wide financial statements provide information about the activities of the whole Academy, presenting both an aggregate view of the Academy's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Academy's operations in more detail than the Academy-wide financial statements by providing information about the Academy's most significant funds - the General Fund, Food Service Fund, Athletic Fund and Debt Service Fund.

*Management's Discussion and Analysis (MD&A)*  
*(Required Supplemental Information)*

**Basic Financial Statements**

*Academy-wide Financial Statements      Fund Financial Statements*

*Notes to the Basic Financial Statements*

*(Required Supplemental Information)*  
*Budgetary Information for Major Funds*

*Other Supplemental Information*

**Reporting the Academy as a Whole - Academy-wide Financial Statements**

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Academy's net assets - the difference between assets and liabilities,

SAGINAW PREPARATORY ACADEMY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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**Reporting the Academy as a Whole - Academy-wide Financial Statements (continued)**

as reported in the statement of net assets - as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the Academy.

The statement of net assets and the statement of activities report the governmental activities for the Academy, which encompass all of the Academy's services, including instruction, support services, community services, athletics and food services. Unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

**Reporting the Academy's Most Significant Funds - Fund Financial Statements**

The Academy's fund financial statements provide detailed information about the most significant funds - not the Academy as a whole. Some funds are required to be established by State law and by bond covenants. However, the Academy establishes many other funds to help it control and manage money for particular purposes (the Food Service and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using grants and other money. The governmental funds of the Academy use the following accounting approach:

Governmental funds - All of the Academy's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Academy and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

SAGINAW PREPARATORY ACADEMY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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**The Academy as a Whole**

Recall that the statement of net assets provides the perspective of the Academy as a whole. Table 1 provides a summary of the Academy's net assets as of June 30, 2007 and June 30, 2006.

Table 1

Assets	2007	2006
Current and other assets	\$ 799,277	\$ 733,627
Capital assets -		
Net of accumulated depreciation	2,791,453	2,878,929
Total Assets	3,590,730	3,612,556
Liabilities		
Current liabilities	365,223	317,690
Noncurrent liabilities	3,565,000	3,645,000
Total Liabilities	3,930,223	3,962,690
Net assets		
Invested in capital assets -		
Net of related debt	(853,547)	(841,071)
Restricted for Debt Service	357,166	378,010
Unrestricted	156,888	112,927
Total Net Assets	\$ (339,493)	\$ (350,134)

The above analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the Academy's governmental activities is discussed below. The Academy's net assets were (\$339,493) at June 30, 2007. Capital assets, net of related debt totaling (\$853,547), compares the original cost, less depreciation of the Academy's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from General Fund revenue as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the Academy's ability to use those net assets for day-to-day operations. The Academy has assets restricted for debt service of \$357,166. The remaining amount of net assets, \$156,888, was unrestricted.

The \$156,888 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The unrestricted net assets balance enables the Academy to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the general fund will have a significant impact on the change in unrestricted net assets from year to year.

SAGINAW PREPARATORY ACADEMY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

**The Academy as a Whole (continued)**

The results of this year's operations for the Academy as a whole are reported in the statement of activities (Table 2), which shows the changes in net assets for fiscal years 2007 and 2006.

Table 2

Revenue		
Program revenue	2007	2006
Charges for services	\$ 728	\$ 1,899
Grants	514,649	636,770
General revenue		
State foundation allowance	1,341,042	1,237,271
Other	31,756	55,199
Total Revenue	<u>1,888,175</u>	<u>1,931,139</u>
Function/Program expenses		
Instruction	610,259	701,497
Support services	776,861	776,370
Community services	4,103	3,526
Food services	114,629	119,249
Athletics	1,310	4,330
Other	5,355	-
Interest on long-term debt	272,669	256,095
Depreciation (unallocated)	92,348	118,508
Total Expenses	<u>1,877,534</u>	<u>1,979,575</u>
Increase (decrease) in Net Assets	<u>\$ 10,641</u>	<u>\$ (48,436)</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$1,877,534. Certain activities were partially funded from those who benefited from the programs \$728 or by other governments and organizations that subsidized certain programs with grants and contributions \$514,649. We paid for the remaining "public benefit" portion of our governmental activities with \$1,341,042 in state foundation allowance, and with our other revenues, i.e., interest and general entitlements.

The Academy experienced an increase in net assets of \$10,641. The key reason for the change in net assets was controlling expenses in relation to revenue received.

As discussed above, the net cost shows the financial burden that was placed on the State by each of these functions. Since unrestricted state aid constitutes the vast majority of Academy operating revenue sources, the Board of Directors and administration must annually evaluate the needs of the Academy and balance those needs with State-prescribed available unrestricted resources.



SAGINAW PREPARATORY ACADEMY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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**The Academy's Funds**

As we noted earlier, the Academy uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Academy is being accountable for the resources the State and others provide to it and may provide additional insight into the Academy's overall financial health.

As the Academy completed this year, the governmental funds reported a combined fund balance of \$534,688, which is an increase of \$43,751 from last year. The primary reason for the increase was, again, the ability to control expenditures.

In the General Fund, our principal operating fund, the fund balance increased to \$177,522. The change is mainly due to decreased expenditures.

General Fund balance is available to fund costs related to allowable school operating purposes.

The Debt Service Fund showed a fund balance decrease of approximately \$20,844. Debt Service Fund balance is reserved since it can only be used to pay debt service obligations.

**General Fund Budgetary Highlights**

Over the course of the year, the Academy revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

There were significant revisions made to the 2006-2007 General Fund original budget. Budgeted revenues were increased \$5,769 due mainly to anticipated federal revenue increasing.

Budgeted expenditures were decreased \$4,828 to account for the decrease in salaries and purchased professional services resulting from the Academy's revised operating plan. The amount of transfers to other funds established in the amended budget was \$303,846 and represents support provided by the General Fund to other functions.

There were no significant variances between the final budget and actual amounts.

SAGINAW PREPARATORY ACADEMY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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**Capital Assets and Debt Administration**

**Capital Assets**

As of June 30, 2007, the Academy had a net investment in capital assets of \$2,791,453 including land, land improvements, buildings, furniture and equipment. This amount represents a net decrease (including additions, disposals, and depreciation) of approximately \$87,476 from last year.

	<u>2007</u>	<u>2006</u>
Land	\$ 30,000	\$ 30,000
Land Improvements	20,011	20,011
Buildings	3,232,022	3,232,022
Furniture & Equipment	<u>479,097</u>	<u>474,225</u>
Total Capital Assets	3,761,130	3,756,258
Less Accumulated Depreciation	<u>969,677</u>	<u>877,329</u>
Net Capital Assets	<u>\$ 2,791,453</u>	<u>\$ 2,878,929</u>

This year's addition of \$4,872 was an oven cabinet. No debt was issued for this addition.

In fiscal year 2007-2008 we anticipate capital additions will be more than the 2006-2007 fiscal year. We present more detailed information about our capital assets in the notes to the financial statements.

**Debt**

At the end of this year, the Academy had \$3,645,000 in Full Term Certificates of Participation outstanding. We present more detailed information about long-term liabilities in the notes to the Financial Statements.

SAGINAW PREPARATORY ACADEMY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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**Economic Factors and Next Year's Budgets and Rates**

Our appointed officials and administration consider many factors when setting the Academy's 2008 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2008 fiscal year is 25 percent and 75 percent of the February 2007 and September 2007 student counts, respectively. The 2008 budget was adopted in May 2007, based on an estimate of students that will be enrolled in September 2007. Approximately 77 percent of total General Fund revenue is from the foundation allowance. As a result, Academy funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2008 school year, we anticipate that the fall student count will be a little more than the estimates used in creating the 2008 budget. Once the final student count and related per pupil funding is validated, State law requires the Academy to amend the budget if actual Academy resources are not sufficient to fund original appropriations.

Since the Academy's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to academies. The State periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the most recent conference, the State estimates funds are sufficient to fund the appropriation. The overall State economy, however, is not very healthy at the moment and is cause for concern.

**CONTACTING THE ACADEMY'S MANAGEMENT**

This financial report is designed to provide our stakeholders with a general overview of the Academy's finances. If you have questions about this report or need additional information, contact the Administration Office, The Leona Group, 4660 S. Hagadorn Road, Suite 500, East Lansing, Michigan 48823.

SAGINAW PREPARATORY ACADEMY  
ACADEMY WIDE STATEMENT OF NET ASSETS  
JUNE 30, 2007

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	Governmental Activities
Assets	
Cash & cash equivalents	\$ 124,526
Investments	354,866
Accounts receivable	3,313
Due from other governmental units	316,572
Capital assets less accumulated depreciation	2,791,453
Total Assets	<u>3,590,730</u>
Liabilities	
Accounts payable	29,260
Accruals	101,379
Due to management company	38,098
Deferred revenue	25,577
Note payable	90,909
Certificates payable, due within one year	80,000
Noncurrent liabilities	
Certificates payable, due in more than one year	3,565,000
Total Liabilities	<u>3,930,223</u>
Net Assets	
Invested in capital assets net of related debt	(853,547)
Restricted for debt service	357,166
Unrestricted	156,888
Total Net Assets	<u>\$ (339,493)</u>

The accompanying notes are an integral part of these financial statements.

SAGINAW PREPARATORY ACADEMY  
ACADEMY WIDE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2007

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Instruction	\$ 610,259	\$ -	\$ 263,314	\$ (346,945)
Support services	776,861	-	129,336	(647,525)
Community services	4,103	-	3,226	(877)
Food services	114,629	728	118,773	4,872
Athletics	1,310	-	-	(1,310)
Other	5,355	-	-	(5,355)
Interest on long-term debt	272,669	-	-	(272,669)
Depreciation (unallocated)	92,348	-	-	(92,348)
Totals	<u>\$ 1,877,534</u>	<u>\$ 728</u>	<u>\$ 514,649</u>	<u>(1,362,157)</u>
General revenues:				
State aid - unrestricted				1,341,042
Interest				19,614
Other				12,142
Total General Revenues				<u>1,372,798</u>
Change in Net Assets				10,641
Net Assets - Beginning of Year				(350,134)
Net Assets - End of Year				<u>\$ (339,493)</u>

The accompanying notes are an integral part of these financial statements.

SAGINAW PREPARATORY ACADEMY  
GOVERNMENTAL FUNDS BALANCE SHEET  
JUNE 30, 2007

	General Fund	Food Service	Athletics	Debt Service	Totals
<u>Assets</u>					
Cash & cash equivalents	\$ 124,526	\$ -	\$ -	\$ -	\$ 124,526
Investments	-	-	-	354,866	354,866
Accounts receivable	1,013	-	-	2,300	3,313
Due from other governmental units	316,572	-	-	-	316,572
Total Assets	<u>\$ 442,111</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 357,166</u>	<u>\$ 799,277</u>
<u>Liabilities and Fund Balance</u>					
Liabilities					
Accounts payable	\$ 29,260	\$ -	\$ -	\$ -	\$ 29,260
Accrued liabilities	80,745	-	-	-	80,745
Deferred revenue	25,577	-	-	-	25,577
Due to management company	38,098	-	-	-	38,098
Notes payable	90,909	-	-	-	90,909
Total Liabilities	<u>264,589</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>264,589</u>
Fund Balance					
Reserved for debt service	-	-	-	357,166	357,166
Unreserved and undesignated	177,522	-	-	-	177,522
Total Fund Balance	<u>177,522</u>	<u>-</u>	<u>-</u>	<u>357,166</u>	<u>534,688</u>
Total Liabilities and Fund Balance	<u>\$ 442,111</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 357,166</u>	<u>\$ 799,277</u>

The accompanying notes are an integral part of these financial statements.

SAGINAW PREPARATORY ACADEMY  
 RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS  
 TO ACADEMY WIDE STATEMENT OF NET ASSETS  
 JUNE 30, 2007

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Total Fund Balances - Governmental Funds	\$ 534,688
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds.	
The cost of the capital assets is	3,761,130
Accumulated depreciation is	(969,677)
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Accrued interest	(20,634)
Certificates of Participation payable	<u>(3,645,000)</u>
Total Net Assets - Governmental Activities (Academy Wide)	<u>\$ (339,493)</u>

The accompanying notes are an integral part of these financial statements.

SAGINAW PREPARATORY ACADEMY  
GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2007

	General	Food Service	Athletics	Debt Service	Totals
Revenue					
Local	\$ 9,905	\$ 728	\$ -	\$ 19,614	\$ 30,247
Other political subdivisions	2,238	-	-	-	2,238
State	1,535,746	8,519	-	-	1,544,265
Federal	201,171	110,254	-	-	311,425
Total Revenue	<u>1,749,060</u>	<u>119,501</u>	<u>-</u>	<u>19,614</u>	<u>1,888,175</u>
Expenditures					
Instruction	610,259	-	-	-	610,259
Supporting services					
Pupil support	30,828	-	-	-	30,828
Instructional staff	88,132	-	-	-	88,132
General administration	151,751	-	-	-	151,751
School administration	151,949	-	-	-	151,949
Business	83,955	-	-	-	83,955
Operations and maintenance	155,898	-	-	-	155,898
Pupil transportation services	44,604	-	-	-	44,604
Central services	69,744	-	-	-	69,744
Community services	4,103	-	-	-	4,103
Food service	-	119,501	-	-	119,501
Athletics	-	-	1,310	-	1,310
Debt service	18,369	-	-	308,666	327,035
Total Expenditures	<u>1,409,592</u>	<u>119,501</u>	<u>1,310</u>	<u>308,666</u>	<u>1,839,069</u>
Excess (Deficiency) of					
Revenues over Expenditures	339,468	-	(1,310)	(289,052)	49,106
Other Financing Sources (Uses)					
Sources	1,655	-	1,310	268,208	271,173
Uses	<u>(276,528)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(276,528)</u>
Total Other Financing					
Sources (Uses)	(274,873)	-	1,310	268,208	(5,355)
Net Change in Fund Balance	64,595	-	-	(20,844)	43,751
Fund Balance, Beginning	112,927	-	-	378,010	490,937
Fund Balance, Ending	<u>\$ 177,522</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 357,166</u>	<u>\$ 534,688</u>

The accompanying notes are an integral part of these financial statements.



SAGINAW PREPARATORY ACADEMY  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE  
 ACADEMY WIDE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2007

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Net Change in Fund Balances - Governmental Funds	\$ 43,751
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are capitalized and depreciated over their estimated useful lives.	
Depreciation expense	(92,348)
Capital outlay	4,872
Repayment of principal is an expenditure in the governmental funds, but not in the statement of activities	
Certificates of Participation payable	75,000
Interest accrued is an expense in the statement of activities, but not in the governmental funds	
	(20,634)
Change in Net Assets of Governmental Activities (Academy Wide)	<u>\$ 10,641</u>

The accompanying notes are an integral part of these financial statements.

SAGINAW PREPARATORY ACADEMY  
NOTES TO THE FINANCIAL STATEMENTS

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NOTE 1--Summary of Significant Accounting Policies

A. Reporting Entity

Saginaw Preparatory Academy was formed as a Public school academy pursuant to the Michigan School Code of 1976, as amended by Act 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982.

In 1997, the Academy entered into a five-year contract with Saginaw Valley State University to charter a public school academy. The contract was extended until June 30, 2008. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State Constitution. The Saginaw Valley State University Board of Trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays the Saginaw Valley State University Board of Trustees three percent of state aid as administrative fees. The total administrative fee paid for the year ended June 30, 2007 to the Saginaw Valley State University Board of Trustees was \$40,231.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the public school academy. Based on application of the criteria, the Academy does not contain component units.

The Academy's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Government Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, when applicable, that do not conflict with or contradict GASB pronouncements. The more significant accounting policies relating to GAAP and used by the Academy are discussed below.

SAGINAW PREPARATORY ACADEMY  
NOTES TO THE FINANCIAL STATEMENTS

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NOTE 1--Summary of Significant Accounting Policies (continued)

B. Academy-Wide Statements

The Statement of Net Assets and the Statement of Activities are Academy-Wide statements and display information about the Academy as a whole. The Academy-Wide approach is focused more on the sustainability of the Academy as an entity and the change in the Academy's net assets from the current year's activities. These statements distinguish between activities that are governmental and those that are considered business-type activities. Currently, all activities of the Academy are considered to be governmental.

The Academy-Wide statements are prepared using the economic resources measurement focus and the full accrual basis of accounting. This basis is different from the manner in which the governmental fund financial statements are prepared. Therefore, reconciliation is included to identify the relationship between the Academy-Wide statements and the statements for the governmental funds.

The Statement of Activities presents a comparison between program expenses and program revenues. Revenues that are not classified as direct program revenues are presented as general revenues. The comparison of program expenses and revenues identifies the extent to which each program is self-financing or draws resources from the general revenues of the Academy.

C. Fund Financial Statements

The accounts of the Academy are organized on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The following fund types are used by the Academy:

Governmental Funds

The governmental fund statements are prepared using the current resources measurement focus and the modified accrual basis of accounting. The fund approach is focused on the currently available resources and changes in the currently available resources of the Academy.

General Fund is the general operating fund of the Academy. It is used to account for all financial resources except those that are required to be accounted for in another fund.

SAGINAW PREPARATORY ACADEMY  
NOTES TO THE FINANCIAL STATEMENTS

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NOTE 1--Summary of Significant Accounting Policies (continued)

C. Fund Financial Statements (continued)

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for a specified purpose. The special revenue funds maintained by the Academy are the food service fund and the athletic fund. The food service fund is intended to be self-supporting; however, any deficits are financed from operating transfers from the general fund. This year the athletic fund was supported entirely by the general fund.

Debt Service Funds are used to account for the accumulation of funds for the periodic payment of principal and interest on long-term debt. The general fund transfers in revenue to cover the principal and interest on the long-term debt.

Usually the emphasis in fund financial statements is on the major funds. The Academy has opted to display information for all funds without regard to the criteria for determination of major funds as determined by GASB 34.

D. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. Accounting basis relates to the timing of the measurements made regardless of the measurement focus applied.

Full Accrual

The full accrual basis of accounting requires recognition of revenues when earned and expenses when incurred, regardless of the timing of related cash flows. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. This method is used for the Academy-Wide statements.

Modified Accrual

The modified accrual basis recognizes revenues when they are measurable and available, available means collectible with the current period or within 60 days after year-end. Expenditures are still recognized when incurred; however, principal and interest on long-term debt is recognized when payment is due. This method is used for the fund level statements.

SAGINAW PREPARATORY ACADEMY  
NOTES TO THE FINANCIAL STATEMENTS

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NOTE 1--Summary of Significant Accounting Policies (continued)

Basis of Accounting

The most significant difference between the full accrual basis of accounting and the modified accrual basis of accounting is the way in which capital assets and long-term debt are recognized. The full accrual basis of accounting recognizes purchases of capital assets as an asset and long-term debt proceeds as a liability (similar to a for-profit business). The modified accrual basis of accounting recognizes the purchase of capital assets as expenditures and long-term debt proceeds as other revenue sources.

E. Financial Statement Amounts

Cash

Cash includes cash on hand and demand deposits.

Investments

Investments held at June 30, 2007 were invested in Treasury obligations.

Receivables & Due Froms

Receivables and due froms consist of all revenues earned at year-end but not yet received.

Prepays

Prepaid amounts consist of payments for which the Academy will have a future benefit and will be used up at a date beyond the current year-end.

Capital Assets and Depreciation

Capital assets purchased or acquired are reported at historical cost or estimated historical cost. Contributed assets are reported at fair value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs for repairs and maintenance are expensed as incurred. The Academy does not possess infrastructure type assets. Depreciation on all assets is provided on the straight-line method over the following estimated useful lives:

Land improvements	15 years
Buildings	39 years
Furniture and equipment	3-7 years

SAGINAW PREPARATORY ACADEMY  
NOTES TO THE FINANCIAL STATEMENTS

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NOTE 1--Summary of Significant Accounting Policies (continued)

E. Financial Statement Amounts (continued)

Capital Assets and Depreciation (continued)

The Academy's basic capitalization policy is to capitalize all capital assets with a cost of over \$1,000, other than software, which is capitalized when the cost is \$10,000 or more.

Accounts Payable

Accounts payable consist of items from which the Academy benefited during the current fiscal year but has not yet paid.

Accrued Expenses

Accrued expenses consist of items related to payroll liabilities, specifically the withholding of employees' portion for insurance payments.

Due to Management Company

Due to the management company consist of amounts due on contracted employee's management fees, and other services provided that are due and payable for the current fiscal year.

Deferred Revenue

Deferred revenue represents amounts for which the Academy has received but has not yet earned. Deferred revenue is usually caused by the receipt of grant program revenues in excess of expenses/expenditures related to the grant. The revenues are deferred until the proceeds have been fully expensed/expended. At June 30, 2007, the Academy had \$25,577 in deferred revenue.

Notes Payable

Notes payable consist of a state aid anticipation note issued for the continuance of operations.

Long-Term Liabilities

Certificates of Participation payable are the result of long-term obligations issued for the purpose of making capital purchases and improvements.

SAGINAW PREPARATORY ACADEMY  
NOTES TO THE FINANCIAL STATEMENTS

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NOTE 1--Summary of Significant Accounting Policies (continued)

E. Financial Statement Amounts (continued)

Inter-fund Activity

Inter-fund activity is reported as transfers. Transfers are eliminated upon conversion to full accrual.

NOTE 2--Stewardship, Compliance, and Accountability

The Academy is required to adopt an annual budget before the beginning of the fiscal year for the general fund and special revenue funds. The accounting basis of the budgets is the modified accrual method. Following are the procedures used in establishing the budgetary data reflected in the financial statements:

1. The Academy's Administrator normally submits to the Board of Directors a proposed budget by June 30 of each year. The budget includes proposed expenditures and the means to finance them.
2. The Administrator is authorized to transfer budgeted amounts between functions within any fund; however, any revisions that alter the total expenditures of any function must be approved by the Board of Directors.
3. The budget is adopted on a basis consistent with U.S. generally accepted accounting principles.
4. Budgeted amounts shown in the supplemental information reflect amendments approved by the Board of Directors through June 30, 2007.

The budgetary comparison presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Academy to have its budget in place by June 30. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. The Academy did not have significant expenditure budget variances. Budget variances are illustrated in the required supplemental information.

SAGINAW PREPARATORY ACADEMY  
NOTES TO THE FINANCIAL STATEMENTS

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NOTE 3--Deposits and Investments

The Academy is authorized, by the State of Michigan, to deposit its funds in banks, savings and loan associations, or credit unions having a principal office in Michigan.

The Academy is also authorized to invest in the following:

- a. Direct bonds and obligations of the U.S. or agency or instrumentality,
- b. CDs, savings accounts with banks, savings and loan associations, or credit unions which are insured with the applicable federal agency,
- c. Commercial paper – within three highest rate classifications by at least two rating services, maturing not later than 270 days,
- d. U.S. or agency repurchase agreements,
- e. Banker's acceptance of U.S. banks,
- f. Mutual funds – investments which local unit can make directly.

As of year-end, the carrying amount of the Academy deposits was \$124,526 and the bank balance was \$126,092. Of the bank balance, \$100,000 was covered by federal depository insurance.

A total of \$354,866 of the Academy's investment is held in trust and restricted for debt service and capital acquisition under the terms of the Academy's Certificate of Participation agreements (see Note 6).

Currently, the Academy does not have an investment policy. However, the Academy's investments are currently in Treasury obligations and management considers the risk to be low.

NOTE 4--Short-Term Debt

The Academy had \$90,909 outstanding at June 30, 2007, on a state aid anticipation note due in September of 2007, bearing interest at 6.2%. The following are the changes in short-term debt:

	Balance July 1, 2006	Additions	Retirements	Balance June 30, 2007
Governmental Activities				
State Aid anticipation note	\$ 461,353	\$ 600,000	\$ 970,444	\$ 90,909
Totals	<u>\$ 461,353</u>	<u>\$ 600,000</u>	<u>\$ 970,444</u>	<u>\$ 90,909</u>

The proceeds from the State Aid anticipation note were used to sustain operations until the Academy received State Aid.



SAGINAW PREPARATORY ACADEMY  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5--Capital Assets and Accumulated Depreciation

Capital asset activity of the Academy was as follows:

	Balance July 1, 2006	Additions	Disposals	Balance June 30, 2007
Capital assets not subject to depreciation				
Land	\$ 30,000	\$ -	\$ -	\$ 30,000
Subtotal	30,000	-	-	30,000
Capital assets subject to depreciation				
Land Improvements	20,011	-	-	20,011
Buildings	3,232,022	-	-	3,232,022
Furniture & Equipment	474,225	4,872	-	479,097
Subtotal	3,726,258	4,872	-	3,731,130
Total Capital Assets	3,756,258	4,872	-	3,761,130
Accumulated depreciation				
Land Improvements	20,011	-	-	20,011
Buildings	452,404	64,601	-	517,005
Furniture & Equipment	404,914	27,747	-	432,661
Total Accumulated Depreciation	877,329	92,348	-	969,677
Total Net Capital Assets	\$ 2,878,929	\$ (87,476)	\$ -	\$ 2,791,453

NOTE 6--Long-Term Debt

The Academy's long-term debt includes \$3,645,000 of Certificates of Participation, bearing interest at rates between 5.40% and 7.00%. The obligations require semi-annual interest payment due on December 1 and June 1, and an annual payment of principal due on June 1, which began June 1, 2002. The certificates are collateralized by a mortgage on the Academy's facility. Twenty percent of the Academy's unrestricted state aid revenue is allowed to be used for debt service on the certificates. At June 30, 2007, the Academy had not exceeded the allowed twenty percent.

Following is a summary of changes in long-term debt of the Academy:

	Balance July 1, 2006	Additions	Retirements	Balance June 30, 2007	Current Portion
Governmental Activities					
Certificates of Participation	\$ 3,720,000	\$ -	\$ 75,000	\$ 3,645,000	\$ 80,000
Totals	\$ 3,720,000	\$ -	\$ 75,000	\$ 3,645,000	\$ 80,000

SAGINAW PREPARATORY ACADEMY  
NOTES TO THE FINANCIAL STATEMENTS

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NOTE 6—Long-Term Debt (continued)

Annual debt service requirements to maturity for the above governmental activity is as follows:

Year Ended	Principal	Interest	Total
2008	\$ 80,000	\$ 247,610	\$ 327,610
2009	85,000	242,810	327,810
2010	90,000	237,625	327,625
2011	95,000	231,775	326,775
2012	100,000	225,600	325,600
2013-2017	610,000	1,021,725	1,631,725
2018-2022	830,000	793,974	1,623,974
2023-2027	1,165,000	462,000	1,627,000
2028-2029	590,000	62,651	652,651
Totals	<u>\$ 3,645,000</u>	<u>\$ 3,525,770</u>	<u>\$ 7,170,770</u>

Governmental Activities

Full Term Certificates of  
Participation of the following:

1999 Issue \$4,035,000

Serial and term

certificate due in annual

installments of \$55,000

to \$305,000 through

June 1, 2029; interest

at 5.4% to 7.0%

\$ 3,645,000

Interest expense for the year on all debt totaled \$252,035.

NOTE 7--Risk Management

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The risk of employee injuries and medical benefits for employees of the management company are covered by insurance held by the management company. The Academy has purchased commercial insurance for all other claims.

NOTE 8--Management Fees

The Academy has a management agreement with a for-profit corporation through June 30, 2007. Management fees are based on twelve percent of all state and federal revenues. However, the minimum annual management fee shall not be less than \$144,000 nor shall it exceed \$210,000. Management fees were \$210,000 for the year ended June 30, 2007.

SAGINAW PREPARATORY ACADEMY  
NOTES TO THE FINANCIAL STATEMENTS

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NOTE 8--Management Fees (continued)

The management company provides all the resources required to operate the Academy including administration, instruction and operations. All Academy personnel are provided by the management company. The related payroll expenses paid to the management company for the year ended June 30, 2007, approximated \$783,222.

NOTE 9--Lease Commitments

The Academy has a lease agreement for copiers. The amount expensed under the lease for the fiscal year was \$5,460. Minimum annual future payments are \$5,460 and \$4,095 for the years ending June 30, 2007 and 2008, respectively.

NOTE 10--Interfund -- Receivables, Payables, and Transfers

<u>Fund</u>	<u>Transfer In</u>	<u>Fund</u>	<u>Transfer Out</u>
Athletics	\$ 1,310	General	\$ 1,310
Debt Service	268,208	General	268,208
	<u>\$ 269,518</u>		<u>\$ 269,518</u>

The transfer to the athletic fund was to subsidize that program. The transfer to the debt service fund was to cover principal and interest on long-term debt.

NOTE 11--Designated Fund Balance

The debt service fund balance is designated for the purpose of servicing long-term debt.

NOTE 12--Subsequent Event

On September 26, 2007, the Academy entered into a State Aid note in the amount of \$500,000.

## REQUIRED SUPPLEMENTAL INFORMATION

Saginaw Preparatory Academy  
Budgetary Comparison  
For the Year Ended June 30, 2007

	General Fund			Special Revenue Funds		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
Revenue						
Local	\$ -	\$ 8,700	\$ 9,905	\$ 1,300	\$ 900	\$ 728
Other political subdivisions	-	2,232	2,238	-	-	-
State	1,561,431	1,550,466	1,535,746	4,053	2,840	8,519
Federal	174,164	179,966	201,171	86,220	99,500	110,254
Incoming transfer and other	-	-	1,655	3,748	2,599	1,310
Total Revenues	<u>1,735,595</u>	<u>1,741,364</u>	<u>1,750,715</u>	<u>95,321</u>	<u>105,839</u>	<u>120,811</u>
Expenditures						
Instruction						
Basic programs	432,481	353,196	357,241	-	-	-
Added needs	159,179	240,208	253,018	-	-	-
Support Services						
Pupil	51,375	40,008	30,828	-	-	-
Instructional staff	85,215	94,037	88,132	-	-	-
General administration	157,007	158,097	151,751	-	-	-
School administration	149,874	156,482	151,949	-	-	-
Business	69,240	84,625	83,955	-	-	-
Operation and maintenance	172,861	164,882	155,898	-	-	-
Pupil transportation services	39,417	43,131	44,604	-	-	-
Central services	71,352	68,749	69,744	-	-	-
Community services	6,998	10,723	4,103	-	-	-
Food service	-	-	-	92,331	104,989	119,501
Athletics	-	-	-	2,990	850	1,310
Debt service	-	-	18,369	-	-	-
Outgoing transfers and other	327,813	303,846	276,528	-	-	-
Total Expenditures	<u>1,722,812</u>	<u>1,717,984</u>	<u>1,686,120</u>	<u>95,321</u>	<u>105,839</u>	<u>120,811</u>
Excess (Deficiency) of						
Revenues Over Expenditures	12,783	23,380	64,595	-	-	-
Fund Balance - Beginning of Year	112,927	112,927	112,927	-	-	-
Fund Balance - End of Year	<u>\$ 125,710</u>	<u>\$ 136,307</u>	<u>\$ 177,522</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

## ADDITIONAL SUPPLEMENTAL INFORMATION

Saginaw Preparatory Academy  
Schedule of Outstanding Certificate Indebtedness  
June 30, 2007

1999 Issue \$4,035,000

Interest Rate: 5.4% to 7.0%

Year Ending June 30,	Annual	Semiannual		Total
	Principal 1-Jun	Interest Payment 1-Dec	Interest Payment 1-Jun	Fiscal Year Requirement
2008	\$ 80,000	\$ 123,805	\$ 123,805	\$ 327,610
2009	85,000	121,405	121,405	327,810
2010	90,000	118,812	118,813	327,625
2011	95,000	115,887	115,888	326,775
2012	100,000	112,800	112,800	325,600
2013	105,000	109,550	109,550	324,100
2014	115,000	106,138	106,137	327,275
2015	120,000	102,400	102,400	324,800
2016	130,000	98,500	98,500	327,000
2017	140,000	94,275	94,275	328,550
2018	145,000	89,725	89,725	324,450
2019	155,000	85,012	85,012	325,024
2020	165,000	79,975	79,975	324,950
2021	175,000	74,200	74,200	323,400
2022	190,000	68,075	68,075	326,150
2023	205,000	61,425	61,425	327,850
2024	215,000	54,250	54,250	323,500
2025	230,000	46,725	46,725	323,450
2026	250,000	38,675	38,675	327,350
2027	265,000	29,925	29,925	324,850
2028	285,000	20,650	20,650	326,300
2029	305,000	10,675	10,676	326,351
Totals	<u>\$ 3,645,000</u>	<u>\$ 1,762,884</u>	<u>\$ 1,762,886</u>	<u>\$ 7,170,770</u>



**Gardner | Provenzano  
Schauman & Thomas**

**CERTIFIED PUBLIC ACCOUNTANTS**

Frederick C. Gardner  
Giacamo Provenzano  
James R. Schauman  
Heather A. Thomas

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

August 24, 2007

To the Board of Directors  
Saginaw Preparatory Academy  
Saginaw, Michigan

We have audited the financial statements of the governmental activities of Saginaw Preparatory Academy as of and for the year ended June 30, 2007, which comprise Saginaw Preparatory Academy's basic financial statements, and have issued our report thereon dated August 24, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Saginaw Preparatory Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Saginaw Preparatory Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Saginaw Preparatory Academy's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.



A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Saginaw Preparatory Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Saginaw Preparatory Academy's financial statements that is more than inconsequential will not be prevented or detected by Saginaw Preparatory Academy's internal control.

We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting, 06-07-0.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Saginaw Preparatory Academy's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

### **Compliance**

As part of obtaining reasonable assurance about whether Saginaw Preparatory Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Board of Directors  
Saginaw Preparatory Academy  
Page Three

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and the pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Gardner, Provenzano, Schaumman & Thomas, P.C.*

Certified Public Accountants

SAGINAW PREPARATORY ACADEMY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2007

FINDINGS FINANCIAL STATEMENT AUDIT

0607-0 Incorrect recording of management fees.

Criteria: Management fees should be charged according to the management agreement.

Condition: Management fees were overcharged per the management contract by \$17,096.

Effect: Unadjusted General Fund Balance understated by \$17,096.

Recommendation: The Board of Directors should compare the budgeted management fees to the management contract.

Management's response: The Board of Directors will compare the budgeted line item for management fees with the management contract to ensure fees are charged appropriately.



# Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner  
Giacamo Provenzano  
James R. Schauman  
Heather A. Thomas

August 24, 2007

To the Board of Directors  
Saginaw Preparatory Academy  
Saginaw, Michigan

We appreciate the opportunity to conduct your audit this year. We are writing to you as we complete the audit to communicate any control deficiencies we identified during the audit and determined to be significant deficiencies or material weaknesses. This communication is a requirement of the new auditing standard: **Statement on Auditing Standards (SAS) 112: Communicating Internal Control Related Matters Identified in an Audit**. The new standard applies to the audits of any financial statements with periods ending on or after December 15, 2006.

In planning and performing our audit of your financial statements for period ending June 30, 2007, we applied generally accepted auditing standards (GAAS) as we considered your internal control over financial reporting (internal control) as a basis for designing our auditing procedures. We did this for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of your internal controls. Accordingly, as a part of your audit, we are not expressing an opinion on the effectiveness of your internal control.

Our consideration of internal control was for the limited purpose of conducting your organization's audit and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we did identify certain deficiencies in internal control that we consider to be significant deficiencies that are discussed below. It is important to note that control deficiencies are not necessarily problems you will choose to address; however, they do represent potential risks. Our job as your auditors is to ensure that you understand where you have these deficiencies or weaknesses so that you can make informed business decisions on how best to respond to these risks. In this year's audit, we identified the following:

## **Significant Deficiencies**

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects your entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of your financial statements that is more than inconsequential will not be prevented or detected by your internal control.

To the Board of Directors  
Saginaw Preparatory Academy  
August 24, 2007  
Page Two

0607-0 Incorrect recording of management fees.

Criteria: Management fees should be charged according to the management agreement.

Condition: Management fees were overcharged per the management contract by \$17,096.

Effect: Unadjusted General Fund Balance understated by \$17,096.

Recommendation: The Board of Directors should compare the budgeted management fees to the management contract.

Management's response: The Board of Directors will compare the budgeted line item for management fees with the management contract to ensure fees are charged appropriately.

This written communication related to the significant deficiencies identified during this year's audit is intended solely for the information and use by your management, those charged with your organization's governance, others you deem appropriate within your organization, and any governmental authorities you need to share this information with. It is not intended for use by anyone other than these specified parties.

We are available to answer any questions that you may have related to the control deficiencies we identified during your audit or discuss the benefits and associated costs of any options you have for remedying them if you would like to do so. If you would like to set up a meeting to discuss this communication or your organization's internal controls, please feel free to contact me.

We appreciate the opportunity to conduct your organization's audit.

Sincerely,

*Gardner, Provenzano, Schauman & Thomas, P.C.*

Gardner, Provenzano, Schauman & Thomas, P.C.